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SCURRY-RAINBOW OIL LIMITED



SR

1966 Annual Report

SCURRY-RAINBOW OIL LIMITED

Incorporated under the Laws of the Province of Alberta, Canada

HEAD OFFICE	539 Eighth Avenue S.W. Calgary, Alberta
BOARD OF DIRECTORS	Peter Abt Calgary, Alberta Ole Bardahl Seattle, Washington Paul S. Kerr New York, N.Y. John F. Langston, P.Eng. Calgary, Alberta Peter Mackenzie Montreal, Quebec H. Neil Mallon Dallas, Texas Lawrence C. Morrisroe Calgary, Alberta John Scrimgeour New York, N.Y. Frank E. Taplin, M.B.E. Princeton, New Jersey
EXECUTIVE OFFICERS	Frank E. Taplin, M.B.E. Chairman of the Board Lawrence C. Morrisroe President Peter Abt Executive Vice-President John F. Langston, P.Eng. Vice-President Eugene H. Charko, C.A. Treasurer and Assistant Secretary Maclean E. Jones, Q.C. Secretary
REGISTRAR & TRANSFER AGENTS	Guaranty Trust Company of Canada Calgary, Alberta Toronto, Ontario Montreal, Quebec The Canadian Bank of Commerce Trust Company New York, N.Y.
STOCK LISTINGS	American Stock Exchange New York, N.Y. Toronto Stock Exchange Toronto, Ontario
AUDITORS	Price Waterhouse & Co. Calgary, Alberta
ANNUAL MEETING	<i>The 1967 annual meeting of shareholders will be held Saturday, February 18, 1967, at 10:00 a.m., at the Head Office of the Company, 539 Eighth Avenue S.W., Calgary, Alberta, Canada. A formal notice of this meeting, together with proxy statement and form of proxy, has been mailed with this report. All shareholders who are unable to attend the meeting are urged to sign and return their proxies as soon as possible.</i>

THE REPORT IN BRIEF

	1966	1965
OPERATIONS FOR THE YEAR		
PRODUCTION		
Crude oil — net barrels per day	5,855	5,005
Natural gas — net mcf per day	8,190	7,685
FINANCIAL		
Gross revenue	\$ 6,218,000	\$ 5,185,000
Cash flow from operations	3,433,000	2,943,000
per share	1.64	1.48
Net earnings	1,479,000	1,326,000
per share	.71	.67
Capital expenditures	\$ 4,399,000	\$ 5,755,000
WELLS DRILLED ON COMPANY ACREAGE		
Successful oil and gas wells	65	68
Wells dry and abandoned	66	47
YEAR-END POSITION		
FINANCIAL		
Funds on hand	\$ 6,637,000	\$ 2,419,000
Long term debt due within one year	1,515,000	1,625,000
Working capital	5,122,000	794,000
Total long term debt	\$20,333,000	\$15,568,000
Shares outstanding	2,092,792	1,989,677
OIL AND GAS WELLS		
Total gross wells	3,761	3,675
Net working interest wells	172	155
Net royalty interest wells	207	186
LAND HOLDINGS		
Total gross acreage	8,676,000	7,866,000
Net working interest acreage	2,389,000	2,177,000
Net mineral acreage	1,355,000	1,343,000
Net royalty interest acreage	135,000	135,000
Net mining acreage	720,000	641,000

This report covers the fiscal year ended September 30, 1966 and all comparative figures and illustrations for prior years are given on the same fiscal year basis. All references to "Scurry-Rainbow" and "the Company" in this report, except where the context otherwise indicates, are to Scurry-Rainbow Oil Limited and its subsidiary companies.

To the Shareholders:

Scurry-Rainbow's 1966 fiscal year was highlighted by the continued growth of the Company in oil and gas operations, and by an increase in exploratory activities for other minerals. Production and sales of crude oil and natural gas exceeded the levels attained last year, and record amounts of cash flow and earnings were realized by the Company during 1966. In addition, satisfactory progress has been made by the Company in its planned diversification into natural resources other than petroleum and natural gas which will contribute to the overall growth potential of the Company.

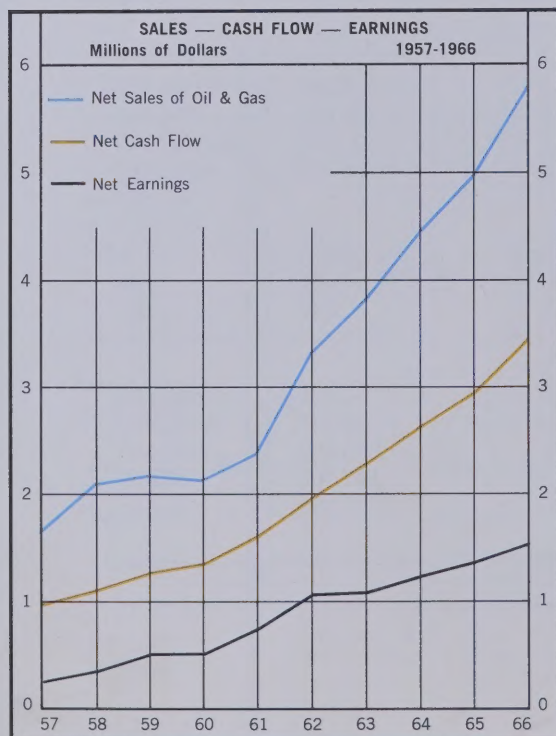
Earnings Summary	1966 (thousands of dollars)	1965	Increase (decrease)
Net sales of oil and gas . . .	\$5,770	\$4,992	16%
Other income	448	193	132%
Gross revenue	6,218	5,185	20%
Operating expenses	1,612	1,470	10%
Interest on long term debt .	1,173	772	52%
Cash flow	3,433	2,943	17%
Depletion and depreciation	1,832	1,443	27%
Other charges	122	174	(30%)
Net earnings	\$1,479	\$1,326	12%
Amounts per share			
Cash flow	\$ 1.64	\$ 1.48	11%
Net earnings	.71	.67	6%

FINANCIAL

The earnings summary, appearing opposite, illustrates the marked increases realized by Scurry-Rainbow in net sales (up 16%), cash flow (up 17%) and net earnings (up 12%) as a result of the higher levels of production attained during the year ended September 30, 1966. The increase of 52% in interest on long term debt is attributable primarily to interest charges on the 6¼% convertible subordinated debentures which were issued by the Company in January, 1966. This increase in interest charges was, however, partially offset by additional income from investment of surplus funds which contributed to the 20% improvement in gross revenue for the year, with the net result that the cash flow advanced in proportion to the gain in net sales of oil and gas. Increased depletion and depreciation charges for 1966 reflect the high level of capital expenditures in recent years and account for the smaller percentage increase in net earnings in relation to the gains recorded for sales and cash flow. Net earnings for 1966 equalled 71c per share on 2,092,792 shares outstanding at September 30, 1966 as compared with 67c per share for 1965 on 1,989,677 shares outstanding at September 30, 1965.

The continued growth of the Company in terms of sales, cash flow and earnings during the past ten years is illustrated by the accompanying graph. Since 1957 net sales of oil and gas and cash flow have more than tripled, and net earnings have increased more than six fold in reaching the 1966 levels.

The proceeds of \$7,200,000 from the debenture financing completed in January, 1966 and the cash flow for the year provided the funds required for corporate expenditures in 1966 and served to increase the Company's working capital from \$794,000 at September 30, 1965 to \$5,122,000 at September 30, 1966.



PRODUCTION

In 1966 net production of crude oil increased 17% to 2,137,023 barrels for the year, an average of 5,855 barrels per day. Net production of natural gas rose 7% to 2,988,909 mcf for the year, an average of 8,190 mcf per day. The higher oil production combined with the higher gas production had the net effect of increasing total revenue from the sale of crude oil and natural gas by 16% to \$5,769,841 for the year ended September 30, 1966.

The accompanying table illustrates the increasing importance to Scurry-Rainbow of its Saskatchewan and British Columbia oil production. Oil production from these two provinces is not subject to the severe proration which exists in Alberta, and for this reason Scurry-Rainbow has concentrated its exploration and development drilling activity in Saskatchewan and British Columbia for the past several years.

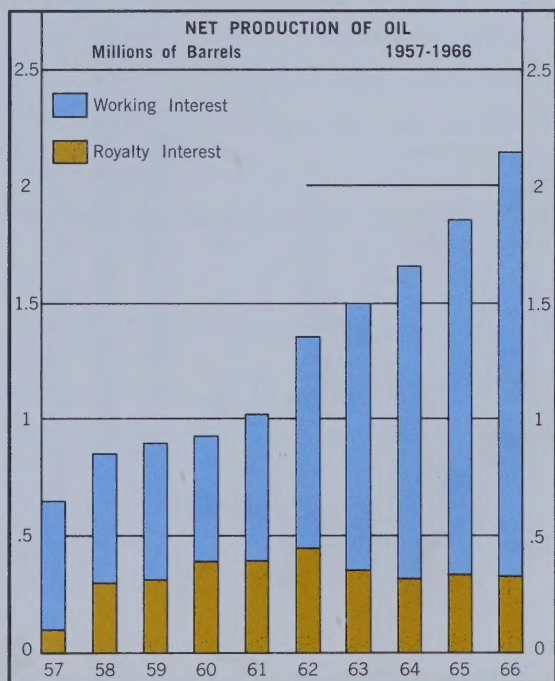
During the year several oil and gas fields in which the Company holds varying working and royalty interests were unitized, and negotiations are virtually complete for the unitization of the Nancy field in northeastern British Columbia. The institution of pressure maintenance in the Nancy field of northeastern British Columbia and the Workman field of southeastern Saskatchewan of which Scurry-Rainbow is the operator will add substantially to the Company's overall daily oil production. At September 30, 1966 the Company held participating interests in 54 units in Alberta, British Columbia and Saskatchewan containing a total of 3,018 oil wells and 149 gas wells which were equivalent to 33 net working interest wells and 91 net royalty interest wells for the Company.

The growth rate for oil production that is illustrated on the graph appearing opposite is expected to continue through the coming year, with added benefits already assured for future years when the Gold Creek wet-gas field is brought on stream. Scurry-Rainbow has a major carried and working interest in this wet-gas pool which is presently scheduled to go on production in November, 1968. In addition to condensate and residue gas, this field will also be one of the main sulphur producers of Alberta and, when placed on production, will provide a solid earnings base for Scurry-Rainbow for many years.

Net Production of Oil	1966	1965
Alberta	439,435	493,583
British Columbia	469,657	350,249
Saskatchewan	1,201,842	955,068
Manitoba	26,089	28,296
Total barrels	<u>2,137,023</u>	<u>1,827,196</u>
Barrels per day	5,855	5,005

Net Production of Gas	1966	1965
Alberta	2,779,409	2,533,121
British Columbia	209,500	272,806
Total mcf	<u>2,988,909</u>	<u>2,805,927</u>
Mcf, per day	8,190	7,685

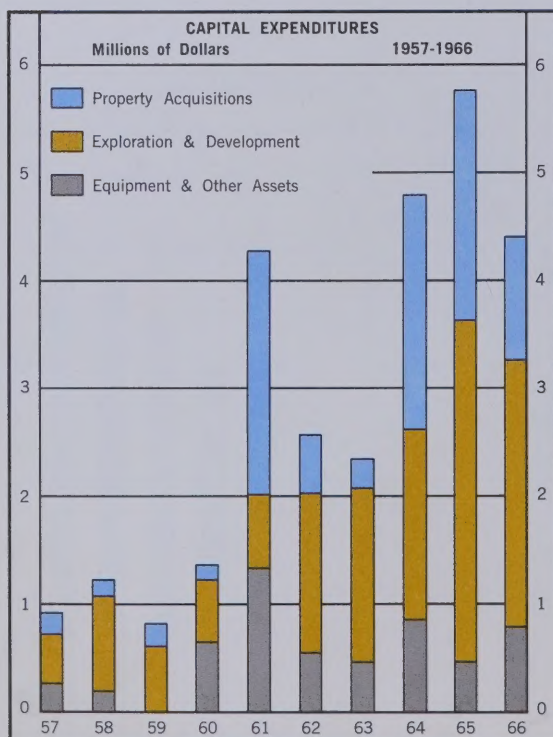
Net Sales of Oil and Gas	1966	1965
Crude oil	\$5,072,323	\$4,303,404
Natural gas and by-products	<u>697,518</u>	<u>688,674</u>
Total dollars	<u>\$5,769,841</u>	<u>\$4,992,078</u>



CAPITAL EXPENDITURES

As summarized below capital expenditures on oil and gas properties, mining properties and other capital assets totalled \$4,399,330 for 1966, an overall decrease of \$1,355,796 from the total amount expended during the previous year. The decrease of \$2,086,860 in oil and gas expenditures is primarily attributable to a significant reduction in the expenditures which were required to maintain the Company's position in the Gold Creek field of northwestern Alberta. The increase of \$771,052 in mining expenditures is directly related to two major items: the acquisition of the Crows Nest Pass coal reserves and the exploration and development of the Company's potash deposits in the Watrous area of Saskatchewan.

Summary of Capital Expenditures	1966	1965
Oil and gas properties . . .	\$3,258,972	\$5,345,832
Mining properties	1,046,846	275,794
Other capital assets	93,512	133,500
Total capital expenditures . .	<u>\$4,399,330</u>	<u>\$5,755,126</u>



EXPLORATION AND DEVELOPMENT

Oil and Gas

Scurry-Rainbow's 1966 drilling program resulted in a very satisfactory success ratio. Of a total of 131 wells drilled on Company acreage, 61 were completed as oil wells and 4 as gas wells. A summary of these wells by province and classification appears on the opposite page. Over 50% of the total wells drilled on Company acreage were drilled at no cost to the Company under farmout and other agreements. A further 37 wells were drilled (mostly in southeastern Saskatchewan) on acreage directly offsetting Company holdings pursuant to option or dry-hole agreements with the Company.

As a result of several discoveries in southeastern Saskatchewan and indicated extensions to pools in northeastern British Columbia, Scurry-Rainbow expects to undertake a major development drilling program in 1967. This development is expected to more than offset further production restrictions in Alberta and other reductions due to natural depletion in older fields.

Scurry-Rainbow also plans to continue a very active exploration program with the major emphasis continuing to be in southeastern Saskatchewan and northeastern British Columbia. The prolific Keg River reef discoveries in the Rainbow area of northwestern Alberta have virtually captured the entire exploratory activity of the industry in Alberta. Scurry-Rainbow has recently acquired a 25% interest in 7,360 acres of petroleum and natural gas rights directly offsetting a completed oil discovery in this area and plans to drill 1 development well and 2 wildcats on this acreage, all to be completed this winter. Scurry-Rainbow also holds 200,000 gross acres (150,000 net acres) approximately 100 miles due east of Rainbow in an area known to have attractive prospects for similar Keg River reef development on which an exploration program is planned this year.

BRITISH COLUMBIA

Scurry-Rainbow participated in drilling a total of 22 wells in northeastern British Columbia, resulting in 9 oil producers and 1 gas well with the remaining 12 dry and abandoned. The major part of the Company's drilling activity in British Columbia was carried out in the general

Peejay-Nancy area where the Company holds an extensive spread of petroleum and natural gas interests on which 32 oil wells and 4 gas wells have been completed to date.

Scurry-Rainbow is currently completing arrangements with the other owners of the Nancy pool to unitize the field and install a pressure maintenance scheme. This program is expected to provide a major increase in daily oil production, together with a corresponding increase in the ultimate recovery. Land acquisitions in British Columbia during the year consisted of 2 drilling reservations totalling 16,600 gross acres which represent 6,240 net acres to Scurry-Rainbow.

ALBERTA

Scurry-Rainbow's 1966 Alberta drilling program resulted in 9 oil wells, 3 gas wells and 5 dry holes. A new Devonian D-3 reef discovery in the Clive area of central Alberta, in which Scurry-Rainbow has a 50% working interest, created an increase in wildcat drilling in that area. Scurry-Rainbow has completed arrangements for 2 wildcat wells to be drilled offsetting Company acreage in that area. Both of these wells will be drilled at no cost to Scurry-Rainbow and are scheduled to be completed early in 1967.

In the Gold Creek area of northwestern Alberta, 2 more gas wells were completed, bringing the total up to 6 completions in this pool. This field is presently scheduled to be placed on production in November, 1968 and will produce propane, butane, condensate and sulphur in addition to natural gas. Additional wildcat drilling will be carried out in the Gold Creek area to evaluate the Company's extensive acreage holdings further.

Significant land acquisitions during the year were made in the Clear Hills area of northwestern Alberta where the Company purchased 126,000 acres of petroleum and natural gas reservations and in the Crows Nest Pass area of southwestern Alberta where 20,000 acres of freehold mineral rights were purchased from West Canadian Mineral Holdings Ltd. One dual zone Mississippian and Devonian gas well has been completed on this freehold acreage in which the Company now owns a 5.6% working interest and a 15% gross royalty.

Capital Expenditures - Oil and Gas		1966	1965
Acreage acquisitions	\$	626,593	\$2,056,241
Exploratory and development drilling		1,269,440	2,309,689
Exploratory surveys		24,044	46,575
Rentals and other carrying charges		651,807	617,685
		2,571,884	5,030,190
Production equipment		687,088	315,642
Total for oil and gas properties		\$3,258,972	\$5,345,832

SASKATCHEWAN

During 1966 a total of 92 wells were drilled on Company acreage in the Province of Saskatchewan, resulting in 43 completions and 49 abandonments. Scurry-Rainbow paid its proportionate share of the drilling costs of 35 of these wells, while the remainder were drilled at no cost to the Company under farmout agreements or on royalty acreage. An additional 37 wells were drilled by other operators on acreage directly offsetting Company holdings pursuant to option or dry-hole agreements with the Company.

Scurry-Rainbow's extensive spread of freehold mineral rights in Saskatchewan continues to be a major factor in the Company's growth.

Wells Drilled on Company Acreage				1966	1965
	Alta.	B.C.	Sask.	Total	Total
Oil wells	9	9	43	61	63
Gas wells	3	1	—	4	5
Dry holes	5	12	49	66	47
Total wells	17	22	92	131	115
Net working interest wells					
Oil and gas	1	2	8	11	22
Dry holes	2	2	18	22	12
Net royalty interest wells					
Oil and gas	1	—	24	25	16
Dry holes	—	—	19	19	10

A Devonian oil discovery in southeastern Saskatchewan has given the industry a new incentive to drill wells to deeper horizons in search for oil. Scurry-Rainbow will be participating directly in this exploration play and is also in a good position to benefit from other companies' exploration programs in southeastern Saskatchewan due to the extensive acreage owned by the Company in that part of the province. Scurry-Rainbow also has a large and widespread acreage position in the Winnipegosis (Keg River equivalent) play in north central Saskatchewan. The renewed interest in this play by the industry has already resulted in several deep tests close to Scurry-Rainbow holdings.

Major land acquisitions in Saskatchewan consisted of 298,000 acres in the Cypress Hills area of southwestern Saskatchewan and 100,000 acres near Watrous in central Saskatchewan.

Other Minerals

POTASH

Scurry-Rainbow's potash exploratory program in the Province of Saskatchewan has proven up a large ore body of high grade potash. Total tonnage developed to date has been calculated at 225 million tons of recoverable ore with an average grade of 27.8% K₂O (potash). The Company has engaged Stearns-Roger Engineering of Denver, Colorado to develop the flow-sheets, design and engineering necessary to bring this deposit into production. This study is scheduled to be delivered to the Company by February 15, 1967, following which the Company will be able to formulate final plans to bring the deposit into production. In addition to the development of this potash reserve on 178,000 acres, Scurry-Rainbow has granted leases on 11,840 net acres to a number of established potash companies covering those lands owned by Scurry-Rainbow

Capital Expenditures - Mining	1966	1965
Property acquisitions	\$ 532,323	\$ 63,500
Exploration	441,696	212,294
Rentals and other carrying charges	72,827	—
Total for mining properties . . .	<u>\$1,046,846</u>	<u>\$275,794</u>

which are situated within the proven ore bodies of the other companies. Scurry-Rainbow will receive an annual rental plus a royalty on all potash produced from the leased acreage. Royalty income from these properties will commence in 1968 and will thereafter provide substantial revenue to Scurry-Rainbow.

COAL

In June, 1966 Scurry-Rainbow purchased from West Canadian Mineral Holdings Ltd. a large coking and steam coal reserve located in the Crows Nest Pass area of southwestern Alberta. The coal reserve was part of an overall purchase of assets by Scurry-Rainbow which included approximately 20,000 acres of mineral rights in the same area and 30 mining claims in the Pine Point area of the Northwest Territories. Coking coal from the Crows Nest Pass area is presently being shipped to Japan by two other mines. Scurry-Rainbow has entered into an agreement with C. Itoh & Co. of Japan for the purpose of determining the economic feasibility of reopening Scurry-Rainbow's coal mines for the shipment of coking coal to Japan.

SULPHUR

In April, 1966 Scurry-Rainbow staked 3,300 mining claims in the Province of Nova Scotia following the discovery of elemental sulphur by another company in the Truro area of that province. The properties were acquired on the basis of geological similarities to the Truro discovery and the presence of low gravity anomalies indicating the presence of salt domes. Although exploratory surveys and drilling on these properties have not yet located commercial deposits of sulphur, the work done has indicated the presence of salt intrusions and sulphur bearing formations.

METALS

Scurry-Rainbow's metals exploration program has resulted in the discovery of several metal occurrences which warrant further exploration. Two separate nickel-copper discoveries in northern Saskatchewan will be drilled this winter. Diamond drilling on one of these properties has previously discovered nickel-copper mineralization in widths of over 100 feet. In southern British Columbia geophysical surveys and diamond drilling will be carried out on several properties acquired during the year.

Since September 30, 1966 Scurry-Rainbow acquired a major share position in Cascade Molybdenum Mines Ltd. (N.P.L.) and has assumed the management of that company. Cascade Molybdenum is a British Columbia company which is currently developing a molybdenum ore body in southern British Columbia. It is presently anticipated that the Cascade ore body will be placed on production early in 1968.

The results of the overall exploratory program for other minerals are very encouraging, and your management is confident that this diversification will benefit Scurry-Rainbow by providing a sound basis for the continued growth and expansion of your Company.

Your directors express sincere appreciation to the shareholders for their continued interest in the affairs of the Company and to the employees for their support and co-operation which made possible the progress of the Company in the past year.

Frank C. Japlin

Chairman of the Board

Lawrence C. Morrison

President

January 20, 1967

OIL AND GAS WELLS

	Alberta	British Columbia	Saskat- chewan	Manitoba	Total Sept. 30/66	Total Sept. 30/65
Unitized Wells						
Oil wells	1,066	205	1,747	—	3,018	2,985
Gas wells	149	—	—	—	149	149
	<u>1,215</u>	<u>205</u>	<u>1,747</u>	<u>—</u>	<u>3,167</u>	<u>3,134</u>
Non-unitized Wells						
Oil wells	146	58	266	40	510	465
Gas wells	44	40	—	—	84	76
	<u>190</u>	<u>98</u>	<u>266</u>	<u>40</u>	<u>594</u>	<u>541</u>
Total gross wells	<u>1,405</u>	<u>303</u>	<u>2,013</u>	<u>40</u>	<u>3,761</u>	<u>3,675</u>
Net Working Interest Wells						
Oil wells	47	21	78	8	154	140
Gas wells	14	4	—	—	18	15
	<u>61</u>	<u>25</u>	<u>78</u>	<u>8</u>	<u>172</u>	<u>155</u>
Net Royalty Interest Wells						
Oil wells	24	—	176	1	201	180
Gas wells	5	1	—	—	6	6
	<u>29</u>	<u>1</u>	<u>176</u>	<u>1</u>	<u>207</u>	<u>186</u>

One gross well represents a well in which the Company has any interest, including all wells operated under unit agreements.

One net working interest well represents the full working interest ownership in one well, or the ownership of fractional working interests in several wells aggregating the equivalent of the full working interest ownership in one well.

One net royalty interest well represents the right to the equivalent of one-eighth of the production from one well, without deduction for development or operating expenses.



OIL AND GAS MAP
OF
WESTERN CANADA
SHOWING PROPERTIES IN WHICH
**SCURRY-RAINBOW
OIL LIMITED**
HAS INTERESTS

0 50 100 150 200 250
MILES



SCURRY-RAINBOW OIL LIMITED
ACREAGE OF VARYING INTERESTS

— OIL PIPE LINE — GAS PIPE LINE

(No) PRODUCING AREAS

PRODUCING AREAS

ALBERTA

- | | |
|-----------------------------------|-------------------------------------|
| (1) BEAVER LAKE | (21) PEMBINA RIVER |
| (2) BONNIE GLEN | (22) REDWATER |
| (3) BUFFALO LAKE | (23) SMOXY RIVER |
| (4) CALGARY CROSSFIELD UNIT No. 1 | (24) SUFFIELD SOUTH |
| (5) CARBONDALE | (25) STYLAN LAKE AND HESPERO |
| (6) CROSSFIELD | (26) THREE HILLS CREEK PEKISKO UNIT |
| (7) CROSSFIELD CARDIUM UNIT No. 1 | (27) TURIN |
| (8) CROSSFIELD TURNER VALLEY UNIT | (28) TURNER VALLEY UNITS 4, 5, & 6 |
| (9) ERSKINE | (29) WAINWRIGHT |
| (10) FENN BIG VALLEY | (30) WACHESON |
| (11) FOREMOST-ETZIKOM | (31) BASHAW |
| (12) GILBY | (32) BENTLEY VIKING SAND |
| (13) HARMATTAN ELKTON | (33) BIG LAKE |
| (14) JOFFRE | (34) CAMPBELL UNIT |
| (15) JOFFRE VIKING SAND UNIT | (35) CHAUVIN SOUTH |
| (16) JOGARCM | (36) CHIGWELL |
| (17) LEDUC WOODBEND | (37) CLIVE |
| (18) LEDUC WOODBEND D-2 UNIT | (38) OLIVE NORTH BASAL QUARTZ UNIT |
| (19) LEDUC WOODBEND D-2 B POOL | (39) PORT SASKATCHEWAN |
| (20) MALMO | (40) HOMEGLIN RIMBEY LEDUC UNIT |
| (21) NEVIS UNIT No. 1 | (41) INNISFAIR LEDUC REEF UNIT |
| (22) NOSE CREEK | (42) KESSLER |
| (23) NORMANDVILLE | (43) STETTLER ERSKINE |
| (24) PARKLAND TURNER VALLEY UNIT | (44) WEST PONDOKA |
| (25) PEMBINA | (45) GOLD CREEK |
| (26) PEMBINA CARDIUM UNIT No. 20 | (46) BELLEVUE |
| | (47) RAINBOW LAKE |

SASKATCHEWAN

- | | |
|--|--|
| (48) BENSON | (56) WORKMAN |
| (49) ELMORE AND GAINSBOROUGH | (57) ALAMEDA |
| (50) HASTINGS | (58) ALAMEDA CENTRAL, EAST AND NORTH UNITS |
| (51) HUNTOON | (59) WEST CARNDUFF UNIT AND GLEN EWER UNIT |
| (52) LLOYDMINSTER | (60) MANOR |
| (53) LOUGHEED | (61) PINTO |
| (54) MIDALE | (62) WILLMAR |
| (55) MIDALE UNIT | (63) ALIDA UNIT |
| (56) WEYBURN | (64) LAKE ALMA SOUTH |
| (57) WEYBURN UNIT | (65) RATCLIFFE |
| (58) NOTTINGHAM | (66) INNIS |
| (59) NOTTINGHAM NORTH ALIDA BEDS UNIT | (67) ARCOLA |
| (60) PARKMAN | (68) POTASH PERMIT 10A |
| (61) QUEENSDALE | (69) OTTER LAKE |
| (62) STEELMAN | |
| (63) STEELMAN UNIT 1A, 2, 3, 4, 5, & 6 | |

MANITOBA

- | | |
|-------------------|-----------|
| (64) NORTH ANTLER | (67) DALY |
|-------------------|-----------|

BRITISH COLUMBIA

- | | |
|-------------------------|--------------------------------|
| (68) HALFWAY | (73) DAWSON CREEK |
| (69) HIGHWAY | (74) MONTNEY |
| (70) WEST BEATTON RIVER | (75) WEASEL FALCON |
| (71) AITKEN CREEK | (76) PELJAY WEST, OSPREY NANCY |
| (72) BOUNDARY LAKE | |

SCURRY-RAINBOW OIL LIMITED

SUMMARY OF ACREAGE

SEPTEMBER 30, 1966

	GROSS	NET
WORKING INTEREST ACREAGE		
Reservations and Permits	1,820,353	1,446,530
Petroleum and Natural Gas Leases	1,614,279	494,837
Arctic Island Permits	1,601,591	447,237
MINERAL ACREAGE		
Mineral Titles and Mineral Leases	1,736,800	1,287,617
Oil and Gas Titles	141,432	67,712
ROYALTY ACREAGE		
Gross Royalty in Freehold Land	317,812	60,001
Gross Overriding Royalty on P&NG Leases	457,715	67,973
Gross Overriding Royalty on P&NG Reservations and Permits	40,494	6,797
MINING ACREAGE		
Potash Permits	493,581	493,581
Mineral Prospecting Permit	217,752	21,775
Mining Claims	200,341	171,415
Coal Mining Properties	33,641	33,641

SCURRY-RAINBOW OIL LIMITED and Subsidiary Companies

FIVE YEAR OPERATING SUMMARY

1966

1965

1964

1963

1962

OIL AND GAS PRODUCTION

Crude oil

Net barrels for the year	2,137,000	1,827,000	1,632,000	1,502,000	1,344,000
Average per day	5,855	5,005	4,460	4,115	3,680

Natural gas

Net mcf for the year	2,989,000	2,806,000	2,226,000	1,051,000	852,000
Average per day	8,190	7,685	6,080	2,880	2,335

WELLS DRILLED ON COMPANY ACREAGE

Total gross wells

Successful oil and gas wells	65	68	59	60	131
Wells dry and abandoned	66	47	56	42	22

Net working interest wells

Successful oil and gas wells	11	22	18	14	23
Wells dry and abandoned	22	12	14	3	5

Net royalty interest wells

Successful oil and gas wells	25	16	8	11	9
Wells dry and abandoned	19	10	21	5	1

PRODUCING OIL AND GAS WELLS

Total gross wells

Unitized wells	3,167	3,134	3,015	2,760	2,173
Non-unitized wells	594	541	492	588	590

Net working interest wells

Oil wells	154	140	119	109	89
Gas wells	18	15	11	10	8

Net royalty interest wells

Oil wells	201	180	166	174	240
Gas wells	6	6	4	3	3

LAND HOLDINGS

Total gross acreage 8,676,000 7,866,000 11,575,000 6,675,000 7,434,000

Net acreage

Working interest acreage	2,389,000	2,177,000	2,399,000	1,004,000	975,000
Mineral acreage	1,355,000	1,343,000	1,343,000	1,330,000	1,322,000
Royalty interest acreage	135,000	135,000	190,000	368,000	508,000
Mining acreage	720,000	641,000	5,000	108,000	5,000

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED SEPTEMBER 30, 1966

(Canadian dollars)

	1966	1965
Sales, less royalties	\$4,930,110	\$4,213,304
Royalty income	839,731	778,774
Claims awarded for production income	—	109,148
Investment and other income	448,632	83,755
	<u>6,218,473</u>	<u>5,184,981</u>
Production expenses	1,174,540	903,626
Administrative and general expenses	437,628	565,939
Interest on long term debt	1,173,170	772,613
	<u>2,785,338</u>	<u>2,242,178</u>
Cash flow from operations	<u>3,433,135</u>	<u>2,942,803</u>
Depletion and depreciation	1,832,145	1,442,549
Mining claims abandoned	21,355	36,243
Other charges—net	61,779	92,481
Minority interests in net earnings of subsidiaries	38,797	45,661
	<u>1,954,076</u>	<u>1,616,934</u>
Net earnings for the year	1,479,059	1,325,869
Retained earnings at beginning of year	5,942,170	4,616,301
Retained earnings at end of year	<u>\$7,421,229</u>	<u>\$5,942,170</u>

SCURRY-RAINBOW OIL LIMITED and Subsidiary Companies

CONSOLIDATED BALANCE SHEET

ASSETS

	1966	1965
CURRENT ASSETS:		
Cash	\$ 6,354,705	\$ 2,592,572
Accounts receivable	954,657	801,728
Inventory of materials and supplies, at cost	68,387	77,955
Prepaid expenses	79,113	67,714
	<u>7,456,862</u>	<u>3,539,969</u>
INVESTMENTS AND OTHER ASSETS:		
Investments, at cost —		
Shares of Minerals Ltd., 50% owned	2,211,830	2,211,830
Securities of other companies	859,418	424,500
Deposits and advances	326,055	144,961
	<u>3,397,303</u>	<u>2,781,291</u>
CAPITAL ASSETS, at cost: (Note 1)		
Petroleum and natural gas and other mineral interests	40,813,147	38,288,461
Less—Accumulated depletion	(8,084,125)	(6,555,433)
Mining properties, non-producing	1,779,133	653,643
Production equipment	4,513,525	3,841,912
Other capital assets	2,002,276	1,927,451
Less—Accumulated depreciation	(2,326,131)	(2,056,840)
	<u>38,697,825</u>	<u>36,099,194</u>
DEFERRED CHARGES:		
Organization and share issue expense	249,479	247,567
Debenture discount and expense, less amortization	233,773	—
Other charges, less amortization	142,332	124,025
	<u>625,584</u>	<u>371,592</u>
	<u><u>\$50,177,574</u></u>	<u><u>\$42,792,046</u></u>

T SEPTEMBER 30, 1966 (Canadian Dollars)

LIABILITIES

CURRENT LIABILITIES:

	1966	1965
Accounts payable and accrued charges	\$ 819,898	\$ 1,121,287
Long term debt due within one year	1,515,000	1,625,000
	<u>2,334,898</u>	<u>2,746,287</u>

LONG TERM DEBT:

Bank loan at current rate of interest (secured), repayable \$125,000 per month	14,000,000	15,500,000
5% Mortgage due January 1, 1970, repayable \$3,750 per quarter	52,500	67,500
6¼% Convertible subordinated debentures due December 15, 1985 (Note 2)	6,280,000	—
	<u>20,332,500</u>	<u>15,567,500</u>
Less—Amounts due within one year	1,515,000	1,625,000
	<u>18,817,500</u>	<u>13,942,500</u>

MINORITY INTERESTS in subsidiary companies	2,514,706	2,395,460
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SHAREHOLDERS' EQUITY: (Note 3)

Share capital—		
Authorized—7,500,000 shares of a par value of \$3.50 each		
Issued—2,111,292 shares	7,389,522	6,963,870
Contributed surplus	12,102,411	10,801,759
Retained earnings, per statement attached	7,421,229	5,942,170
	<u>26,913,162</u>	<u>23,707,799</u>
Less—18,500 shares held by subsidiaries, at cost . . .	402,692	—
	<u>26,510,470</u>	<u>23,707,799</u>

APPROVED ON BEHALF OF THE BOARD:

Peter Abt, Director
L. C. Morrisroe, Director

<u>\$50,177,574</u>	<u>\$42,792,046</u>
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The Auditors' Report is attached to this Balance Sheet.

SCURRY-RAINBOW OIL LIMITED and Subsidiary Companies

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 1966

(Canadian dollars)

	1966	1965
Funds were derived from:		
Operations	\$ 3,433,135	\$ 2,942,803
Issuance of \$7,500,000 principal amount of debentures . .	7,209,935	—
Long term bank loans	—	4,398,000
Issuance of Company stock—		
Upon exercise of employee options	552,555	170,410
Upon conversion of debentures	1,220,000	—
Other sources	58,280	162,205
	<u>12,473,905</u>	<u>7,673,418</u>
Add—Funds at beginning of year	2,418,682	2,292,960
	<u>14,892,587</u>	<u>9,966,378</u>
Funds were utilized for:		
Acquisition of property	1,158,916	2,119,741
Exploration and development	2,459,814	3,186,243
Purchase of equipment and other capital assets	780,600	449,142
Acquisition of shares in—		
Scurry-Rainbow Oil Limited	402,692	—
Subsidiary companies	9,856	96,012
Other companies	435,918	29,136
Retirement of long term debt—		
By instalments on bank loan and mortgage	1,515,000	1,538,000
By conversion of debentures into shares	1,220,000	—
Other purposes	272,827	129,422
	<u>8,255,623</u>	<u>7,547,696</u>
Funds remaining at end of year	6,636,964	2,418,682
Less—Long term debt due within one year	1,515,000	1,625,000
Working capital at end of year	<u>\$ 5,121,964</u>	<u>\$ 793,682</u>

NOTES TO FINANCIAL STATEMENTS

1. ACCOUNTING PRACTICES:

The companies follow the full cost method of accounting for oil and gas properties whereby all costs relating to the exploration for and development of oil and gas reserves, including exploration overhead, are capitalized whether productive or unproductive and proceeds on disposal of properties are ordinarily deducted from costs without recognition of profit or loss. Depletion of oil and gas properties is computed on the total of all such costs by the unit of production method based on the total estimated proven reserves of oil and gas and other saleable products and depreciation of production equipment is computed in a similar manner.

The costs of mining properties include prospecting, exploration and preliminary development expenditures.

2. DEBENTURE DEBT:

The 6¼% convertible subordinated debentures are convertible into shares of capital stock of the Company at any time before December 15, 1970 at \$20 per share, and thereafter at any time before December 15, 1975 at \$25 per share, such conversion prices being subject to adjustment in specified circumstances. A sinking fund is to be provided sufficient to retire \$400,000 principal amount of debentures on June 15 in each of the years 1971 to 1985 inclusive. During the fiscal year debentures in the principal amount of \$1,220,000 have been converted into 61,000 shares and the amount of debentures so converted may be applied by the Company against its sinking fund obligations.

3. SHAREHOLDERS' EQUITY:

The changes in issued share capital and contributed surplus during the year ended September 30, 1966 are summarized below:

	Number of shares	Share capital (par value)	Contributed surplus
Balance at September 30, 1965	1,989,677	\$6,963,870	\$10,801,759
Issued for cash upon exercise of employee stock options	60,615	212,152	340,403
Issued upon conversion of 6¼% convertible subordinated debentures	61,000	213,500	1,006,500
Unamortized debenture discount and expense applicable to debentures converted into shares .	—	—	(46,251)
Balance at September 30, 1966	<u>2,111,292</u>	<u>\$7,389,522</u>	<u>\$12,102,411</u>

At September 30, 1966, 34,000 shares were reserved for issuance upon exercise of stock options which have been granted to certain officers and employees of the Company. Information on stock options for the year ended September 30, 1966 is summarized below:

Shares under option at September 30, 1965 at \$8.00, \$11.75 and \$15.05 per share . . .	82,615
Option granted at \$21.75 per share	12,000
Options exercised at \$8.00, \$11.75 and \$15.05 per share	(60,615)
Shares under option at September 30, 1966 at \$8.00, \$11.75 and \$21.75 per share . . .	<u>34,000</u>

At September 30, 1966, 314,000 shares were reserved for issuance upon conversion of \$6,280,000 principal amount of the 6¼% convertible subordinated debentures which were outstanding at that date.

The Trust Indenture under which the debentures have been issued contains certain dividend restrictions providing essentially that dividends may be paid only to the extent of consolidated net earnings accumulated subsequent to September 30, 1965 and the net consideration received from the issue of the Company's shares after September 30, 1965.

4. INCOME TAXES:

Under Canadian income tax law, oil and gas drilling and exploration expenses, together with the costs of leases, permits and reservations, all of which are capitalized in the companies' accounts and subsequently amortized, are deducted in computing income as incurred or, if such expenditures exceed the income for the year, the excess is carried forward and applied as income becomes available; exploration expenses on mining properties are deductible on the same basis. For the 1966 fiscal year such deductions exceeded income and therefore no provision for income taxes was required.

5. STATUTORY INFORMATION:

Administrative and general expenses include directors' fees of \$10,000 in 1966 and \$10,000 in 1965.

AUDITORS' REPORT

To the Shareholders of
SCURRY-RAINBOW OIL LIMITED:

We have examined the consolidated balance sheet of Scurry-Rainbow Oil Limited and subsidiary companies as at September 30, 1966 and the consolidated statement of earnings and retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statement of earnings and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the combined companies as at September 30, 1966 and the consolidated results of operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the consolidated statement of source and use of funds for the year ended September 30, 1966 and, in our opinion, it presents fairly the supplementary information on funds for the year.

Calgary, Alberta
December 9, 1966

PRICE WATERHOUSE & CO.
Chartered Accountants.

**TEN YEAR
FINANCIAL
SUMMARY**

SCURRY-RAINBOW OIL LIMITED and Subsidiary Companies

TEN YEAR FINANCIAL SUMMARY

		1966	1965	1964
EARNINGS STATEMENT	Net sales of oil and gas	\$ 5,770,000	\$ 4,992,000	\$ 4,463,000
	Other income	448,000	193,000	400,000
	Gross revenue	6,218,000	5,185,000	4,863,000
	Operating expenses	1,612,000	1,470,000	1,592,000
	Interest on long term debt	1,173,000	772,000	631,000
	Taxes on income	—	—	—
	Cash flow	3,433,000	2,943,000	2,640,000
	Depletion, depreciation and other charges — net	1,954,000	1,617,000	1,461,000
	Net earnings	1,479,000	1,326,000	1,179,000
	Amounts per share			
	Cash flow	1.64	1.48	1.34
	Net earnings	.71	.67	.60
CAPITAL EXPENDITURES	Acquisition of property	1,159,000	2,120,000	2,192,000
	Exploration and development	2,460,000	3,186,000	1,751,000
	Production equipment	687,000	316,000	846,000
	Other capital assets	93,000	133,000	10,000
	Total expenditures	4,399,000	5,755,000	4,799,000
BALANCE SHEET	Current assets	7,457,000	3,540,000	3,790,000
	Current liabilities	2,335,000	2,746,000	3,012,000
	Working capital	5,122,000	794,000	778,000
	Investments and advances	3,397,000	2,781,000	3,515,000
	Capital assets — net	38,698,000	36,099,000	30,656,000
	Deferred charges	626,000	372,000	365,000
	Capital employed	47,843,000	40,046,000	35,314,000
	Long term debt — net	18,818,000	13,943,000	11,192,000
	Minority interests in subsidiaries	2,515,000	2,395,000	1,910,000
	Shareholders' equity	\$26,510,000	\$23,708,000	\$22,212,000
	Shares outstanding	2,092,792	1,989,677	1,977,183

1963	1962	1961	1960	1959	1958	1957
3,845,000	\$ 3,336,000	\$ 2,398,000	\$ 2,143,000	\$ 2,166,000	\$ 2,086,000	\$ 1,643,000
166,000	163,000	316,000	206,000	116,000	144,000	48,000
4,011,000	3,499,000	2,714,000	2,349,000	2,282,000	2,230,000	1,691,000
1,277,000	1,167,000	864,000	795,000	816,000	867,000	642,000
436,000	290,000	238,000	166,000	159,000	158,000	66,000
—	45,000	(1,000)	33,000	33,000	105,000	21,000
2,298,000	1,997,000	1,613,000	1,355,000	1,274,000	1,100,000	962,000
1,258,000	974,000	894,000	863,000	786,000	778,000	745,000
1,040,000	1,023,000	719,000	492,000	488,000	322,000	217,000
1.20	1.04	.84	.71	.66	.58	.50
.54	.53	.37	.26	.25	.17	.11
253,000	542,000	2,269,000	134,000	203,000	137,000	178,000
1,607,000	1,465,000	680,000	580,000	611,000	899,000	456,000
428,000	526,000	234,000	313,000	40,000	187,000	122,000
32,000	21,000	1,112,000	342,000	(40,000)	9,000	160,000
2,320,000	2,554,000	4,295,000	1,369,000	814,000	1,232,000	916,000
4,169,000	3,600,000	3,475,000	3,036,000	2,833,000	2,169,000	2,432,000
3,336,000	2,823,000	2,910,000	1,346,000	1,310,000	1,086,000	1,235,000
833,000	777,000	565,000	1,690,000	1,523,000	1,083,000	1,197,000
2,597,000	287,000	353,000	359,000	350,000	400,000	412,000
27,195,000	22,609,000	20,869,000	17,179,000	17,007,000	17,418,000	17,039,000
390,000	309,000	301,000	363,000	357,000	316,000	328,000
31,015,000	23,982,000	22,088,000	19,591,000	19,237,000	19,217,000	18,976,000
9,103,000	4,357,000	3,454,000	1,684,000	1,892,000	2,437,000	2,573,000
1,872,000	198,000	224,000	216,000	202,000	194,000	180,000
20,040,000	\$19,427,000	\$18,410,000	\$17,691,000	\$17,143,000	\$16,586,000	\$16,223,000
1,909,201	1,920,922	1,920,908	1,920,835	1,920,305	1,909,805	1,907,773

SR